

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-25 EA-11 NEA-10 ISO-00 SPC-03 AID-20 EB-11

NSC-10 RSC-01 CIEP-02 SS-20 STR-08 OMB-01 CEA-02

CIAE-00 COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12

LAB-06 SIL-01 L-03 H-03 PRS-01 PA-04 USIA-15 DRC-01

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R 040830Z JAN 74

FM AMCONSUL HONG KONG

TO SECSTATE WASHDC 9162

INFO AMEMBASSY LONDON

AMEMBASSY LISBON

AMEMBASSY TOKYO

AMEMBASSY TAIPEI

AMEMBASSY SEOUL

AMEMBASSY MANILA

AMEMBASSY JAKARTA

AMEMBASSY BANGKOK

AMEMBASSY SINGAPORE

AMEMBASSY PARIS

AMEMBASSY BERN

AMEMBASSY BEIRUT

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DEPARTMENT PASS TREASURY FOR NELSON

E.O. 11652: N/A

TAGS: EFIN

SUBJ: HONG KONG REMOVES RESTRICTIONS ON IMPORT AND EXPORT OF GOLD

1. BEGIN UNCLASSIFIED - HKG ANNOUNCED DECEMBER 28, THAT EFFECTIVE
JANUARY 1, 1974, IMPORT AND EXPORT RESTRICTIONS RELATING TO GOLD,
DIAMONDS, CURRENCY NOTES AND COINS WOULD BE REMOVED AND CONSE-
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QUENTLY LICENSES WERE NO LONGER NEEDED. END UNCLASSIFIED

2. BEGIN LIMITED OFFICIAL USE - THIS DECISION ARISES OUT OF:

(A) DELAYED ADJUSTMENT TO UK'S REMOVAL OF HK FROM STERLING AREA IN JUNE 1972 WHICH HAD CONSEQUENCE OF REMOVING ALL HK EXCHANGE CONTROLS; AND
(B) DECLINE IN SIGNIFICANCE OF GOLD TRADE AS REVENUE SOURCE FOR MACAU WHICH NEUTRALIZED PORTUGUESE OBJECTIONS.

3. PECULIAR STRUCTURE OF HONG KONG/MACAU GOLD TRADE GOES BACK TO 1953 WHEN A HKG REGULATION PERMITTED TRANSIT SHIPMENTS OF GOLD TO OTHER DESTINATIONS. DOMESTIC GOLD MARKET ALREADY STARTED WHICH

PERMITTED RESIDENTS BUY, SELL AND HOLD GOLD, BUT PROHIBITED IMPORT AND EXPORT OF METARZM TRANSIT DECREE ALLOWED FICTION THAT IMPORT OF GOLD WAS FOR MACAU NOT HONG KONG. IN PRACTICE, IT WENT TO MACAU WHERE IT WAS REGISTERED FOR TAX PURPOSES, THEN SMUGGLED BACK TO HONG KONG WHERE IT BECAME "DOMESTIC GOLD." FROM THAT POINT IT WAS EITHER USED LOCALLY OR SMUGGLED TO OTHER DESTINATIONS IN INDONESIA, TAIWAN, JAPAN, ETC.

4. INSTITUTIONALLY, TRADE WAS CONDUCTED IN MACAU BY A SYNDICATE WHICH BID ANNUALLY OR BIANNUALLY FOR A LICENSE. SYNDICATE PAID A TAX ON EACH OUNCE OF GOLD IMPORTED INTO MACAU BUT WAS COMMITTED TO MINIMUM PAYMENT REGARDLESS OF VOLUME OF IMPORTS. AT HK END, GOLD IMPORTED BY TWO LOCAL COMPANIES ONE OF WHICH WAS AFFILIATED WITH SAMUEL MONTAGU AS WELL AS BANQUE DE L'INDOCHINE THROUGH A LAUSANNE SUBSIDIARY, BULLION EXCHANGE TRADING COMPANY,

ALL THREE OPERATING UNDER MARKET SHARING AGREEMENT.

5. ACCORDING TO FINANCIAL ADVISOR PORTUGUESE AUTHORITIES WERE CONSULTED LAST APRIL AND WHILE NOT ENTHUSIASTIC DID NOT OBJECT. MACAU IS FAR MORE PROSPEROUS IN LASHHFEW YEARS AND GOLD TRADE HAS DIMINISHED SHARPLY WITH COMPETITION FROM SINGAPORE. IN 1973, SHARP INCREASE IN WORLD PRICE FURTHER CUT VOLUME. ANOTHER BLOW WAS LIBERALIZATION OF GOLD IMPORTS IN JAPAN. IT IS BELIEVED THAT SYNDICATE IS LOSING VMONEY THIS YEAR BECAUSE OF ITS MINIMUM REVENUE COMMITMENT. MACAU SYNDICATE ALSO NOTIFIED AND HKG OBLIGING WAITED UNTIL END OF YEAR WHEN ITS CURRENT LICENSE EXPIRED.

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6. FOR HONG KONG, REMOVAL OF RESTRICTION HAS EFFECT OF REDUCING PRICE OF GOLD SUPPLIED FRBG EUROPE BY ELIMINATION OF MACAU TAX, TRANSIT CHARGES AND SMUGGLING PAYOFFS. (IT ALSO HAS EFFECT OF ELIMINATING SOURCE OF CORRUPTION.) ARBITRAGE WITH EUROPE SHOULD BE MORE ACTIVE THAN IT HAS BEEN IN THE PAST. IT IS BELIEVED LOCALLY THAT SWISS BANKERS WILL TAKE A MUCH LARGER ROLE IN MARKET WITH COLLAPSE OF MONOPOLY ARRANGEMENTS. WHETHER HONG KONG WILL BECOME MORE IMPORTANT CENTER OF GOLD TRADING IS DIFFICULT

TO PREDICT AFTER ONLY THREE TRADING DAYS DURING WHICH WORLD-WIDE
INTEREST IN GOLD IS VERY HIGH. HOWEVER, ONE OF FIRMS TRADITIONALLY
ENGAGED IN TRADE STATES THAT IT HAS RECEIVED GREAT MANY INQUIRIES
SINCE NEW REGULATIONS WENT INTO EFFECT AND IS OPTIMISTIC ABOUT
FUTURE BUSINESS. END LIMITED OFFICIAL USE
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